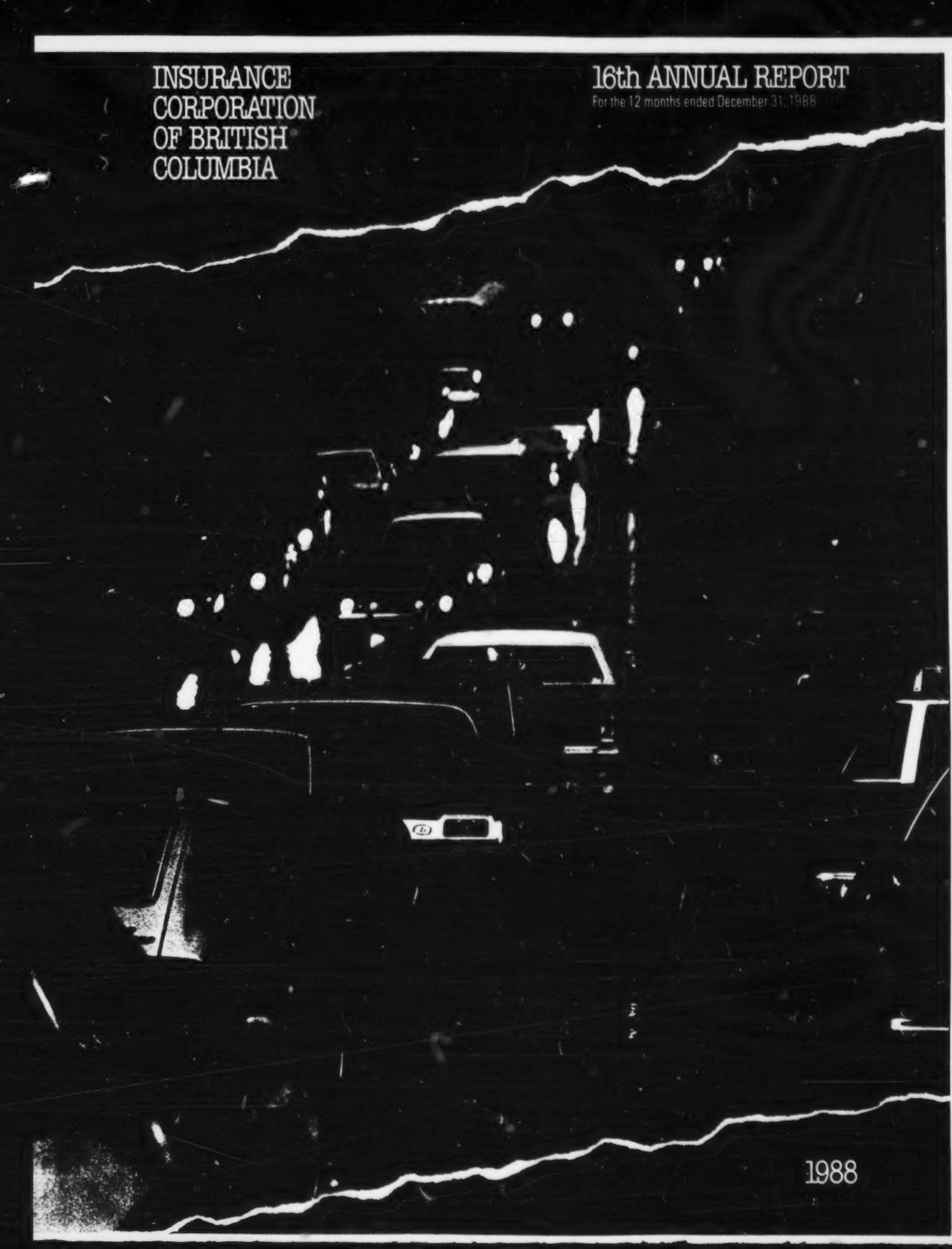
INSURANCE CORPORATION OF BRITISH COLUMBIA

16th ANNUAL REPORT

For the 12 months ended December 31, 1988



1988

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ACROSS B.C. IN 1988

Lower Mainland

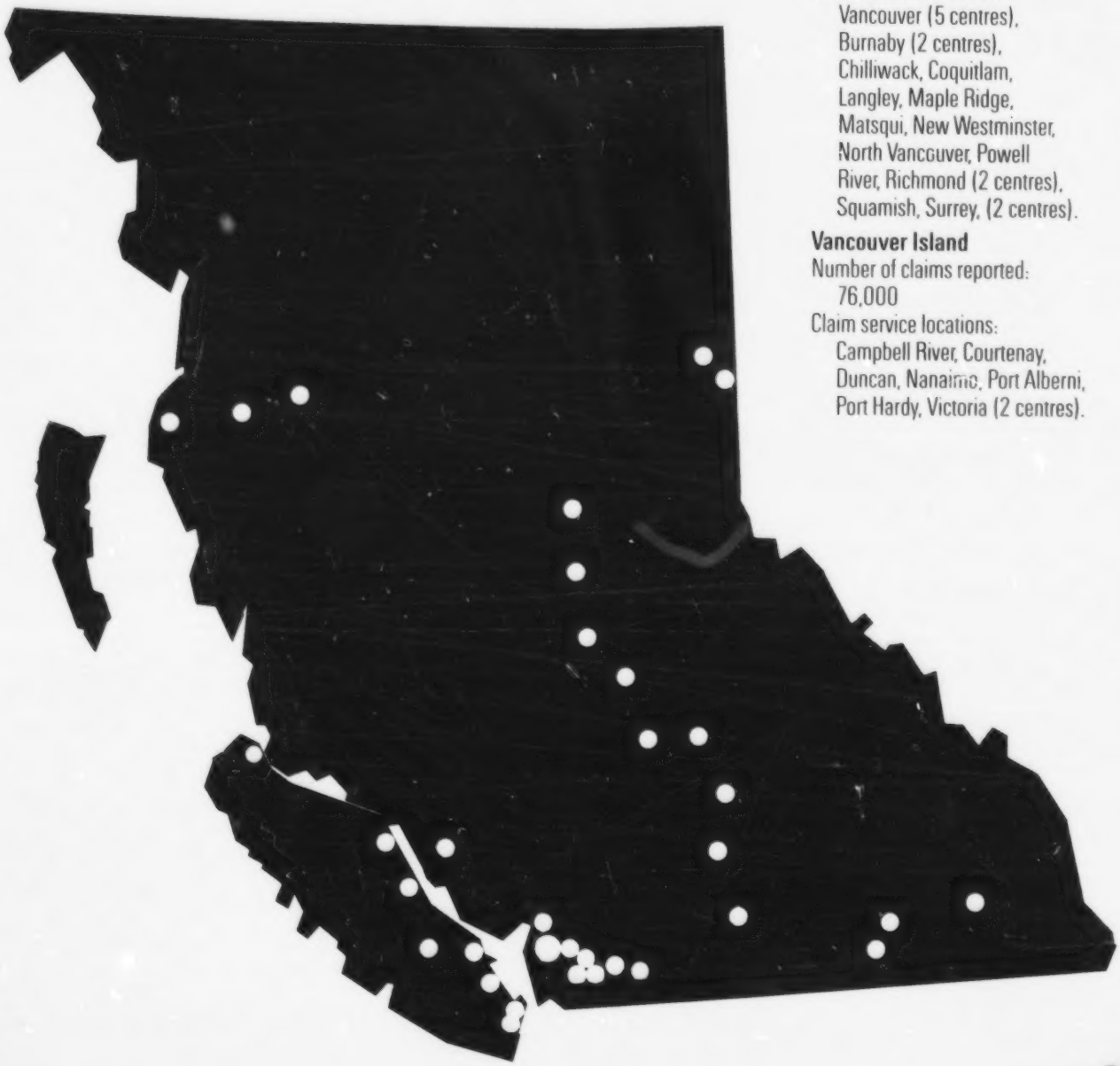
Number of claims reported:
423,000

Claim service locations:
Vancouver (5 centres), Burnaby (2 centres), Chilliwack, Coquitlam, Langley, Maple Ridge, Matsqui, New Westminster, North Vancouver, Powell River, Richmond (2 centres), Squamish, Surrey, (2 centres).

Vancouver Island

Number of claims reported:
76,000

Claim service locations:
Campbell River, Courtenay, Duncan, Nanaimo, Port Alberni, Port Hardy, Victoria (2 centres).



Northern B.C.
Number of claims reported:
53,000
Claim service locations:
Dawson Creek, Fort St. John, Prince George, Prince Rupert, Smithers, Terrace.

Cariboo
Number of claims reported:
35,000
Claim service locations:
100 Mile House, Kamloops, Quesnel, Williams Lake.

Okanagan
Number of claims reported:
41,000
Claim service locations:
Kelowna, Penticton, Salmon Arm, Vernon.

Kootenays
Number of claims reported:
21,000
Claim service locations:
Cranbrook, Nelson, Trail.

THE YEAR AT A GLANCE

Claims – another record year: just under 650,000.
- There has been an increase of about 73,000 claims, 13 per cent over 1987.
- The cost of settling claims broke the billion dollar mark for the first time – $1.045 billion.

Premium Tax –
- Introduced to ICBC by the Provincial Government in 1987, the tax had a total impact of $35 million, an increase of $28 million over 1987.

Earned Premiums – $1.034 million.
- Premiums earned are up from 1987 by $212 million.
- B.C. motorists continue to protect themselves with higher levels of third party coverage, and by choosing lower deductibles.

Investment Income – $213 million.
- At year-end, the total investment fund stood at over $2 billion, a growth of $250 million during the year. The $213 million income from investments, a 10.8 per cent reported yield, represents 17 per cent of total revenue, and contributed to a premium saving of $105 per policy.

Income
- The year ended with income of $26.2 million – a virtual break-even position at less than three per cent of premiums earned.

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REPORT OF THE BOARD OF DIRECTORS

In 1988, for every $100 of earned premiums, the Corporation spent $101 to settle claims.

Investment income surged to $213 million, covered all other expenses and produced a modest operating profit of $26.2 million, about 2.5 per cent of earned premiums.

Though the Corporation managed to cover the 1988 cost of claims, which was $103 million more than in 1987, it needed a 22 per cent rate increase to do so. Claims reported in 1988 at 649,000 were 13 per cent higher than in 1987 and 7 per cent higher than our expectations.

If this claims trend continues, rate increases in the future will have to be substantial, as well. This will be true unless driving habits improve and vehicle accidents decline.

Never has it been clearer that B.C. drivers as a group set their own automobile insurance rates.

The prime function of the Board of Directors of the Insurance Corporation of British Columbia is to ensure that the Corporation fulfills its mission to provide quality, affordable auto insurance to all British Columbians.

The management of the Corporation is encouraged and supported by the Board in its pursuit of three major activities:

- the utilization of every possible efficiency to minimize its administration costs;
- the settlement of claims fairly and promptly with appropriate cost control;
- the organization and execution of traffic safety programs to improve this province's accident record through emphasis on seat belt use and safe driving habits.

We are satisfied that the first two activities mentioned are well controlled.
The percentage of premiums required to fund overheads, at approximately 14 per cent, is less than other similar-size casualty insurance organizations. Also the cost of settling each claim in 1988 was marginally less than that experienced in 1987.

Though seat belt use is high, B.C. motorists have not been convinced to drive safely. Claims reported to the Corporation in 1988, at 649,000 exceeded our expectations by 45,000 claims.
This represents an unexpected claims cost of about $42 million.

In establishing premium rates for 1989, we took an optimistic view that the 1989 increase in accidents would abate.
It was decided to increase premiums by an average 8 per cent. As the Corporation has no capital, if the rate of accidents and claims does not decrease and a large loss occurs, our recourse will be another substantial increase in auto insurance rates.

Driving more carefully and responsibly is the best way to hold automobile insurance premiums in line. Drivers who commit infractions which result in penalty points pay much more and drivers who are at fault in accidents pay more, but when overall accident claims costs rise, everybody pays more.

If the majority of accidents were being caused by one section of the driving community, it would not be difficult to focus on those people and improve the situation. This is not the case, however, and each year a tremendous number of those causing accidents do so for the first time or the first time in years.

It is up to each one of us to be more vigilant and courteous in our driving habits if insurance premiums are to remain at reasonable levels. The Corporation can control operating costs and can influence reasonable claims settlements, but it cannot drive the province's vehicles safely.

That is up to the drivers of British Columbia who, in the final analysis, set their own premiums.

In 1988, the demands for claims services by the motoring public and others exceeded our expectations. To address the increased need for claims service, the Corporation had to add both staff and facilities. Average staffing in the Claims Division grew by 159 people in 1988. A new claim centre was opened in the Royal Oak area of Greater Victoria, and the claim centre in New Westminster was reopened. A second centre in Richmond will open in March 1989. The Board of Directors has also approved additional claim centres for Burnaby, Surrey and North Vancouver.

The cost of individual claims remains well controlled. The current overall average cost of a claim after 12 months is lower in 1988 than in 1987 ($1,059 vs. $1,116).
The Corporation devotes a great deal of energy to cost control but it can do little to reduce the number of claims.

During the year the Corporation made cash payments to or on behalf of claimants of nearly $844 million compared to $732 million in 1987, a 15 per cent increase.

More motorists bought increased third party protection. Only about 13 per cent now carry the minimum $200,000 coverage and the number who carry $1 million or more has increased from 73 per cent to 76 per cent.

In 1987, 53 per cent of motorists carried collision protection. In 1988, that number rose to 54 per cent and there was a significant increase in the number of motorists who bought $100 deductible collision insurance.

In spite of the substantial increase in premium rates for 1988, which would have produced an average annual premium of $501, enhancement of the purchased coverages has produced an average premium of $516, which is 26 per cent higher than 1987, compared to a 22 per cent rate increase.

During the year, the Corporation offered its policyholders an opportunity to buy insurance for terms of less than 12 months. Only about 16 per cent of motorists availed themselves of the opportunity. This short-term policy program continues in 1989.

A premium tax of three per cent, newly introduced to ICBC by the provincial government in 1987, had a total cost in 1988 of nearly $35 million. The rate of tax was raised to four per cent on April 1, 1988.

The investment fund, comprised largely of policyholder funds to pay unsettled claims and recognize unearned premiums, continues to grow and now is over $2 billion. Investment income of $213 million

represents 17 per cent of total revenue.

We continue to stress our traffic safety activities. The rise in claims reported in 1988 occurred despite awareness advertising campaigns, regular news media alerts and a wide variety of special and community-related traffic safety programs. In addition to the seat belt program and our contribution to CounterAttack, other initiatives such as intersection programs and Road Safe (a joint venture with 7-Eleven stores and many Lower Mainland taxi companies) have been undertaken.

We are very proud of our staff. In spite of the increased claims volume and the relative inexperience of some new employees, our high standard of service has been maintained. The Board would like to express its appreciation to all staff members for a job well done.

Raymond J. Addington
Chairman of the Board

Thomas E. Holmes
President and Chief Executive Officer

On behalf of the Board of Directors,
Insurance Corporation of British Columbia
February 14, 1989

L to r back row: George R. Wright, Lawrence B. Eberhardt, Jack F. Ellett, Donald N. Watson, David W. Battison
L to r front row: Roland E. Beaulieu, Raymond J. Addington, Lyall F. Hanson
Missing: Walter H. Dyck, Thomas E. Holmes, F. David Radler

BOARD OF DIRECTORS

Raymond J. Addington*
Chairman of the Board
President
Kelly, Douglas and Company Limited

Thomas E. Holmes*
President and Chief Executive Officer
Insurance Corporation of B.C.

Honourable Lyall F. Hanson*
Minister of Labour and Consumer Services
Province of British Columbia

David W. Battison
Alderman
City of Penticton
Penticton, B.C.

Roland E. Beaulieu†
Businessman
Victoria, B.C.

Walter H. Dyck*◆†
Chairman
Pannell Kerr MacGillivray
Chartered Accountants
Vancouver, B.C.

Lawrence B. Eberhardt◆‡
Formerly Chairman, President and Chief Executive Officer
Neon Products Canada Ltd.
Vancouver, B.C.

Jack F. Ellett‡
President
Price and Markle Equipment Ltd.
Vernon, B.C.

F. David Radler*◆
President
Hollinger Inc.
Vancouver, B.C.

Donald N. Watson†
Formerly President and Chief Executive Officer
Canadian Cellulose Ltd. and Pacific Western Airlines
Vancouver, B.C.

George R. Wright
Vice-Chairman and Director
Richardson Greenshields of Canada Limited
Vancouver, B.C.

MAJOR COMMITTEES OF THE BOARD

* Executive Committee
◆ Audit Committee
† Budget Committee
‡ Investment Committee

Every five minutes, somewhere in B.C., another motor vehicle accident happens.

In the first 11 months of 1988, there were 118,831 motor vehicle accidents in British Columbia reported to the province's Motor Vehicle Branch. 560 people were killed. More than 40,000 were injured. The cost in human lives and suffering was tremendous, as was the dollar cost.

In 1988, just under 650,000 claims were made and the Insurance Corporation paid out an average of $3.3 million every working day. These costs must be borne by all of us.

Long before dawn, when the world financial markets open, the investment analysts at ICBC begin work. They have the responsibility of investing Autoplan premiums prudently and skillfully, to generate the highest possible return. That return is applied against claims and administrative costs and contributes to keeping premiums stable.

In fact, investment income actually reduced each motorist's 1988 Autoplan premium by an average of $105. But claims continued to rise.

The mandate of ICBC is to provide quality auto insurance, on a break-even basis, to all British Columbians. Premiums paid by B.C. motorists must cover the cost of claims for the year. In 1988, Autoplan premiums were increased an average of 22 per cent to meet anticipated claim costs.

STATISTICS BEAR OUT ICBC CLAIMS

British Columbians pay for bad driving habits

VANCOUVER (CP) – It might be the winding mountain roads or just vestiges of the pioneer spirit, but British Columbia drivers are among the worst in the country and they're going to pay for it.

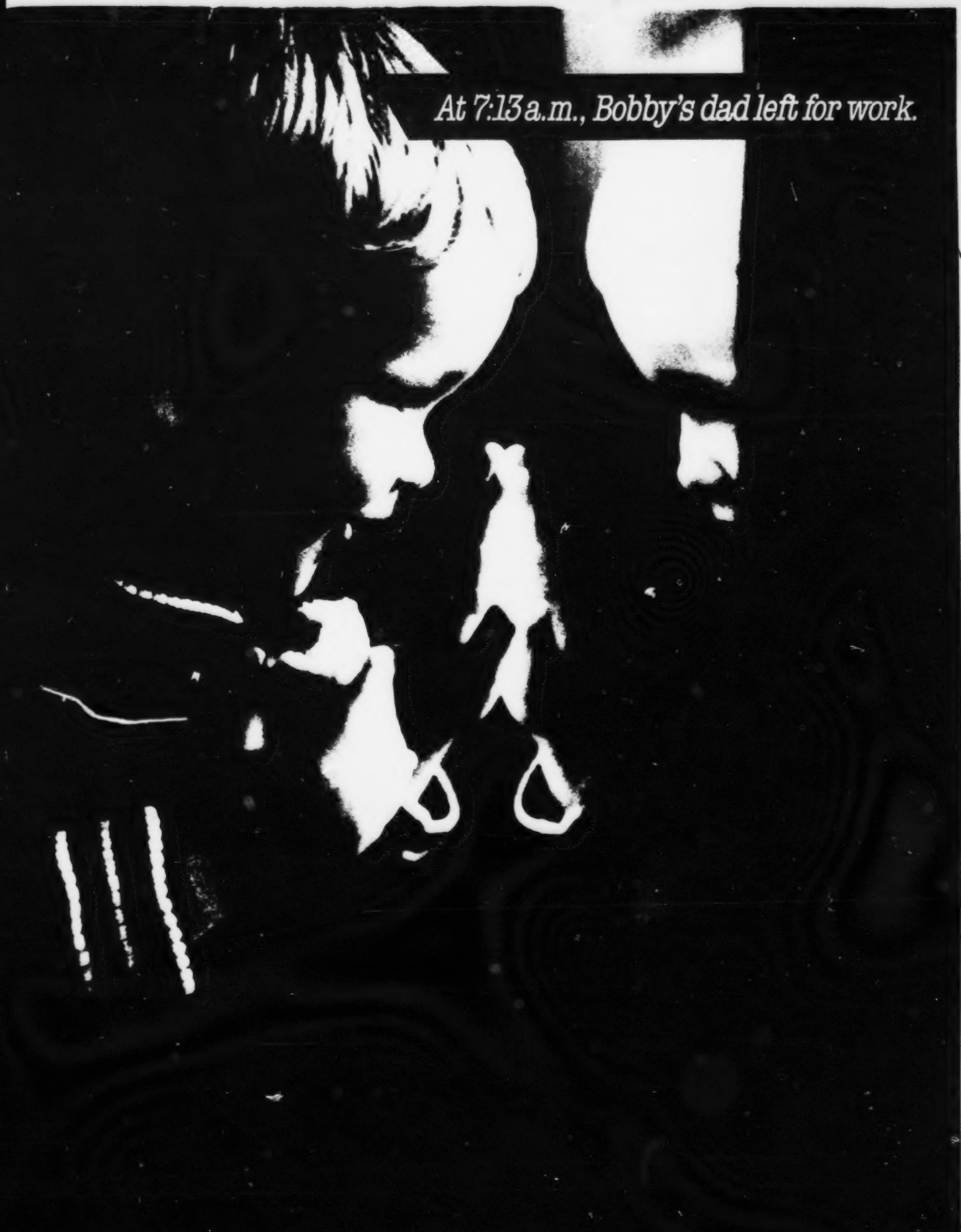
To keep up with poor driving records and increasingly litigious drivers and victims, the Insurance Corp. of B.C. says it will increase insurance rates by an average of 22 per cent next year. The Crown-owned agency had [illegible] year.

In 1986, B.C. had the highest number of accidents per driver at more than 190 for every 100 million kilometres driven.

Road deaths were the second highest in the country at 2.8 for every 100 million kilometres drive. Only Prince Edward Island – which unlike B.C. did not have a seat belt law in 1986 – was higher at 3.23 deaths for every 100 million kilometres driven.

DRIVERS PAY

Those figures mean drivers don't go [illegible]e firms.

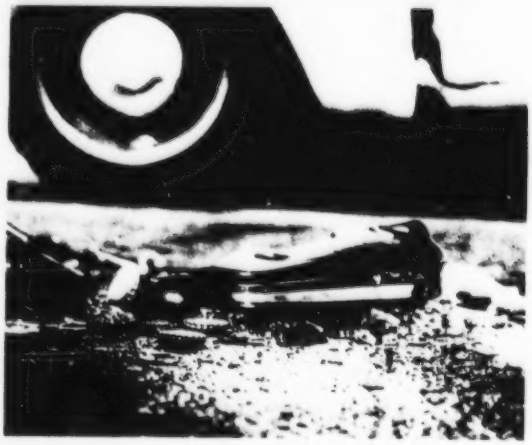


At 7:13 a.m., Bobby's dad left for work.

Why is this happeniing?

Statistics compiled by the IB.C. Ministry of Highways and Transportatiion show that more than 80 per cent of accidents are caused by the actions of people or by their condition. Driving without due care and failing to yield the right of way head the list of accident causes. But alcohol is still the top contributor to *fatal* accidents.

ICBC accident investigators, damage assessors and claims adjusters probe the causes of each accident, collect data and track all costs. Repair costs. Rehabilitation costs. Medical expenses. Legal settlements. These are all escalating.



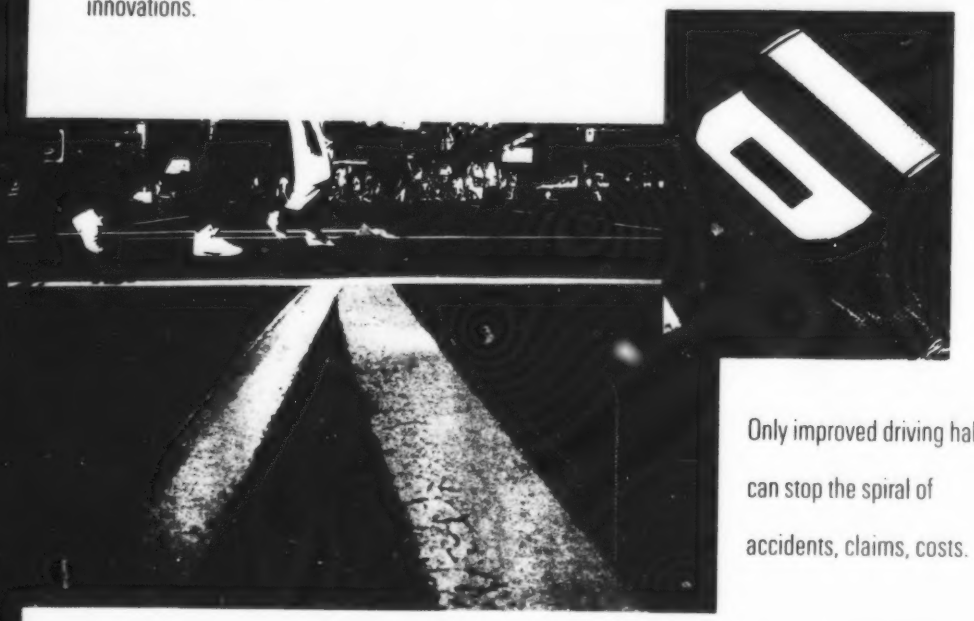
Accidents. Claims. Increasing. Growing.

"...the usual heavy rush hour traffic and..."

What can be done to stop this punishing spiral?

Traffic safety education staff conduct programs in schools and with community groups, attempting to influence, for the better, the habits and attitudes of present and future drivers.

ICBC material damage specialists work with representatives of the auto industry on repair procedures, claim handling and vehicle innovations.

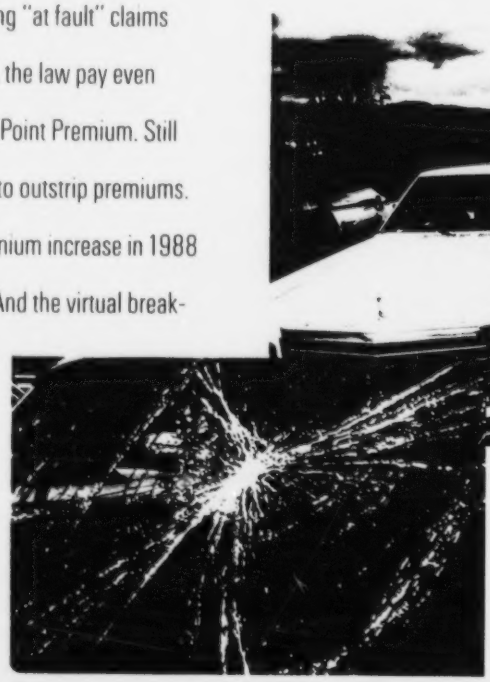


Only improved driving habits can stop the spiral of accidents, claims, costs.

The Corporation as a whole scrutinizes methods and costs to keep efficiency and service at peak levels. We have made some headway. ICBC initiatives have contributed to B.C. having one of the highest seatbelt-wearing rates in North America. And as a partner with the Provincial Government in CounterAttack, we've been active for more than a decade in tackling the drinking driving problem.

"...avoid 6th and Elm. A serious accident..."

In British Columbia, drivers are not discriminated against because of age or sex. All are viewed as equal, each motorist's premium determined by his or her claim record, the vehicle's use and its value. Claim-free motorists are rewarded through the Claim-Rated Scale with discounts of up to 40 per cent. Motorists making "at fault" claims pay more. Drivers who break the law pay even more, in the form of a Driver Point Premium. Still the costs of claims continue to outstrip premiums. The 22 per cent average premium increase in 1988 reflected these rising costs. And the virtual break-even position shown in this report confirms that, unfortunately, the increase was necessary.



Accidents hurt everyone. ICBC is doing what it can. But it will take the efforts of everybody, every driver in B.C., to drive accident rates and auto insurance costs down.

"...emergency vehicles have been called to..."

INVESTMENTS

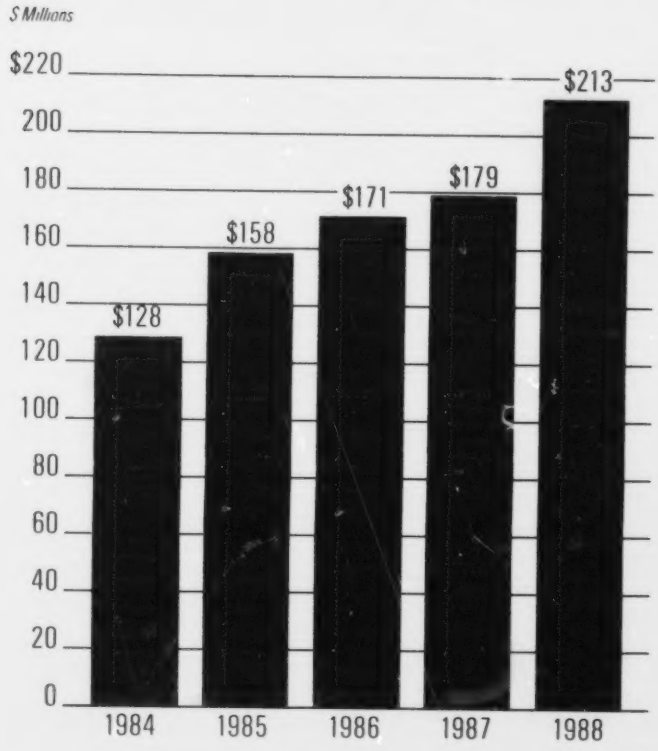
At year-end, the total investment fund stood at over $2 billion, a growth of $250 million during the year. The income from investments was $213 million, a reported yield of 10.8 per cent, representing 17 per cent of total revenue, and $105 per policy, up from $90 last year.

Responding to evidence that the stock market decline of October 1987 was a correction and not a harbinger of depression, and a growing conviction that inflation, and therefore interest rates, would rise during 1988, the Corporation sold $500 million from its bond portfolio in the first quarter of the year. This action reduced the bond position to 24 per cent of the portfolio and it generated $15.4 million in capital gains, which are being deferred and amortized.

During the year, 90-day Treasury bill rates increased by 2.5 percentage points from 8.4 per cent to 10.9 per cent from January to December.

At year-end, the market value of fixed income securities held was $12 million less than book value. The small equity portfolio's market value marginally exceeded its book value. Also, investments in British Columbia-based securities stood at $700 million at year-end, up from $380 million at the end of 1987.

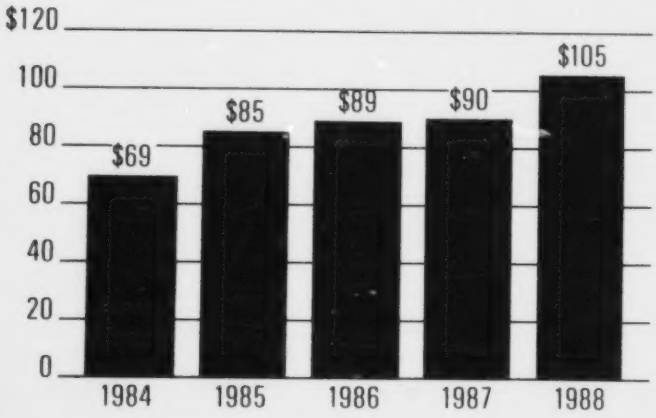
Autoplan Investment Income 1984 – 1988



Investment Income and the Policyholder

Every investment income dollar the Insurance Corporation earns is a dollar the motorist does not have to pay in Autoplan premiums. The following table illustrates the average saving based on the average number of policies in each of the years. Annualized values have been used for policies with a term less than 12 months.

Average Saving per Policy



Investment Portfolio as at December 31, 1988

	$ Millions	%
Federal	474.9	23.4
Provincial – British Columbia	580.9	28.6
– Others	121.6	6.0
Municipal – British Columbia	8.3	.4
Corporation	750.3	37.0
All Others	92.8	4.6
	$2,028.8	100.0

AUTOPLAN FUND

Again in 1988, the number of claims reported is the most significant operating factor driving the Insurance (Motor Vehicle) Act Fund results.

The Corporation received just under 649,000 claims in 1988, as shown below, compared to 1987. This is an increase of about 73,000 claims, or 13 per cent.

Type of Claim	1988 #	1987 #	Increase #	Increase %
Bodily Injury	37,233	32,722	4,511	13.8
Accident Benefits	43,551	38,850	4,701	12.1
Total Injury-Related	80,784	71,572	9,212	12.9
Property Damage	166,147	156,623	9,524	6.1
Collision	144,357	130,820	13,537	10.3
Comprehensive & Other	257,318	216,981	40,337	18.6
Total Property-Related	567,822	504,424	63,398	12.6
Total	648,606	575,996	72,610	12.6

The average cost of each 1988 claim, when finally settled, is expected to be $1,509, down from $1,570 in 1987, as determined at the end of 1987. This indicates that the increased number of claims is largely in lower costing claims and also speaks well of the Corporation's claims cost control programs.

The Corporation's operating expenses totalled over $267 million, reflecting heightened activity. All four categories, as noted in the following table, recorded increases over 1987. The increase of $59 million breaks down as follows:

Claims Operations	$12.1 million increase
Administration	$ 7.5 million increase
Commissions	$12.1 million increase
Premium Tax	$27.5 million increase

The volume of claims drove up staffing in Claims Operations by 159 people and additional costs were incurred acquiring new facilities.

In terms of Administration expenses, it can be noted that the cost per policy for administration functions has risen $3 over 1987, to $33, about 10 per cent. The cost to handle each claim is up $3 to $140, about 2 per cent.

The rise in commissions paid to our brokers for selling Autoplan is due largely to the increase in purchase of extended third party, collision and comprehensive coverages. Premiums for these coverages are commissionable at 11.5%. Premiums earned year over year are up by $212 million, and about half that increase has direct impact on commissions to brokers. Sales of policies of less than a 12-month term increased business activity and the fees paid to brokers for that extra work.

The expense ratio, which compares the sum of administration costs and commissions to earned premiums, has declined from 14.9 per cent in 1987 to 13.7 per cent in 1988, reflecting management expense control programs.

The premium tax has now been in effect for a full year and its rate was increased to 4 per cent effective April 1, 1988. The increase year over year in premium tax expense is $27 million.

The increase in premiums written and earned year over year is much higher than expected. Fewer motorists than anticipated took advantage of the newly introduced short-term policies. This resulted in more premium dollars being paid than expected in spite of the significant rate increase. B.C. motorists continued to protect themselves with higher levels of third party coverage, and by choosing lower deductibles.

In spite of the increased number of claims in 1987 and 1988, more than 84 per cent of motorists continue to qualify for the maximum discount of 40 per cent under the Claim-Rated Scale.

Autoplan Income	*$ Millions*	%
Vehicle premiums earned	1,016.1	81
Driver premiums earned	18.1	2
Investment income	213.1	17
	$1,247.3	100

Autoplan Income Use	*$ Millions*	%
Claims incurred	953.8	77
Claims operation expenses	91.1	7
Administrative expenses	66.1	5
Commissions	75.4	6
Premium Tax	34.7	3
Sub-total	1,221.1	98
Income for the year	26.2	2
	$1,247.3	100

Vehicle Premiums Written by Category	*$ Millions*	%
Private passenger	784.3	72
Light commercial	165.3	15
Heavy commercial	83.8	8
Recreational	28.3	3
Special coverage	26.1	2
	$1,087.8	100

Autoplan Claims Incurred	*$ Millions*	%
Bodily injury	543.4	57
Accident benefits	35.5	4
Total injury-related claims	578.9	61
Property damage	140.7	15
Collision	128.7	13
Comprehensive and other	105.5	11
Total property-related claims	374.9	39
	$953.8	100

FIVE YEAR COMPARISON

The statistics shown in the chart titled Five Year Comparison give an overview of the operations of the Insurance Corporation of British Columbia since 1984.

Some of the statistics for prior years have been restated to conform with current business practices. Annualized values have been used for policies with a term less than 12 months.

	Year ended December 31				
	1988	1987	1986	1985	1984
Autoplan policies	**2,036,000**	1,981,000	1,917,000	1,870,000	1,855,000
Premium income ($000)	**1,034,215**	821,790	757,754	742,372	715,254
Average premium ($)	**516**	411	376	387	376
Claims reported during year	**649,000**	576,000	536,000	480,000	445,000
Cost of claims incurred ($000)	**953,798**	850,546	742,139	653,883	660,353
Expense ratio % (excluding premium tax)	**14**	15	15	15	15
Investment income ($000)	**213,140**	179,205	171,241	158,385	128,032
Investments at year-end ($000)	**2,028,760**	1,778,216	1,546,432	1,359,802	1,125,965
Unpaid claims ($000)	**1,553,174**	1,401,976	1,245,488	1,090,958	951,812
Total assets ($000)	**2,212,917**	1,957,449	1,702,603	1,529,505	1,289,573
Income (Loss) ($000)	**26,153**	(57,793)	1,120	73,562	9,564
Average number of employees	**2,807**	2,604	2,415	2,310	2,366

UNPAID CLAIMS

The unpaid claims account provides for the estimated cost of settlement of reported claims and related expenses, based on the claims settlement experience of the Corporation, current trends, and a detailed review of unpaid claims files. In addition, an estimate is provided for unreported claims.

Year of Loss	**1988**	1987
		($ Millions)
1984 and prior	**80.3**	165.7
1985	**83.3**	178.6
1986	**217.8**	363.6
1987	**400.7**	694.1
1988	**771.1**	–
Total unpaid claims at December 31	**$1,553.2**	$1,402.0

INSURANCE (MOTOR VEHICLE) ACT FUND STATEMENT OF OPERATIONS

Year ended December 31, 1988

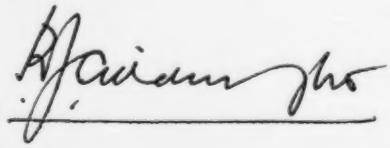
	1988	1987
	($ Thousands)	
Revenue		
Vehicle premiums written	$1,087,752	$ 853,909
Driver premiums written	18,871	16,575
	1,106,623	870,484
Vehicle premiums earned	1,016,087	805,864
Driver premiums earned	18,128	15,926
	1,034,215	821,790
Claims costs		
Claims incurred	953,798	850,546
Claims operation expenses	91,096	78,999
	1,044,894	929,545
Expenses		
Administrative	66,179	58,714
Commissions	75,447	63,332
Premium tax	34,682	7,197
	176,308	129,243
Total claims and expenses	1,221,202	1,058,788
Underwriting loss	(186,987)	(236,998)
Investment income	213,140	179,205
Income (loss) for the year	26,153	(57,793)
Unappropriated surplus – beginning of year	217	12,010
Appropriation (to) from:		
rate stabilization reserve	(16,000)	46,000
Unappropriated surplus – end of year	$ 10,370	$ 217

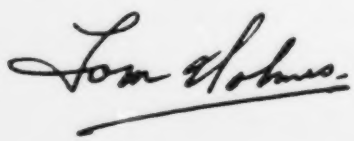
BALANCE SHEET

As at December 31, 1988

	1988	1987
	($ Thousands)	
Assets		
Cash in hands of agents	$ 8,284	$ 7,383
Investments (Note 3)	2,028,760	1,778,216
Accrued interest receivable	27,306	27,156
Accounts receivable	11,526	16,167
Deferred premium acquisition expenses	44,702	36,897
Property and equipment (Note 4)	92,339	91,630
	$2,212,917	$1,957,449
Liabilities		
Cheques outstanding	$ 18,469	$ 8,101
Accounts payable and accrued charges	31,680	24,516
Premiums and fees in advance	44,366	40,577
Deferred investment gains and losses (Note 5)	95,546	111,157
Unearned premiums	409,312	336,905
Unpaid claims	1,553,174	1,401,976
	2,152,547	1,923,232
Insurance (Motor Vehicle) Act Fund Surplus		
Catastrophe Reserve (Note 6)	20,000	20,000
Rate Stabilization Reserve (Note 6)	30,000	14,000
Unappropriated Surplus	10,370	217
	60,370	34,217
	$2,212,917	$1,957,449

Approved by the Board

Director: 

Director: 

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 1988

	1988	1987
	($ Thousands)	
Operating Activities		
Cash received from:		
Agents for vehicle premiums, licence fees and social service taxes	**$1,320,772**	$1,068,538
Interest and net gains on investments	**197,733**	278,023
Collections	**50,655**	51,162
Salvage sales	**18,779**	16,909
	1,587,939	1,414,632
Cash paid to:		
Claimants or third parties on behalf of claimants	**843,868**	732,164
Province of British Columbia for licence fees and social service taxes collected	**173,274**	157,825
Province of British Columbia for premium taxes	**33,166**	14,749
Suppliers of goods and services	**60,892**	68,351
Employees for salaries and benefits	**104,692**	93,515
Agents for commissions	**74,982**	65,592
Policyholders for premium refunds	**55,776**	53,533
All others	**212**	829
	1,346,862	1,186,558
Increase in cash and investments during the year	**241,077**	228,074
Cash and Investments – beginning of year	**1,777,498**	1,549,424
Cash and Investments – end of year	**$2,018,575**	$1,777,498
Represented by:		
Cash	**8,284**	7,383
Investments	**2,028,760**	1,778,216
Cheques outstanding	**(18,469)**	(8,101)
	$2,018,575	$1,777,498

NOTES TO FINANCIAL STATEMENTS

December 31, 1988

1. Status of the Corporation

The Insurance Corporation of British Columbia (the Corporation) is a Crown corporation incorporated under the Insurance Corporation Act, R.S.B.C. Chapter 201. The Corporation operates and administers the Insurance (Motor Vehicle) Act Fund, and as required by legislation, reports the revenues and expenses attributable to the operation of the Insurance (Motor Vehicle) Act Fund separately from other operations of the Corporation, if any. The Corporation also has the power and capacity to act as an insurer and reinsurer in all classes of insurance, but is not presently engaged in any such activities.

2. Summary of Significant Accounting Policies

BASIS OF REPORTING

The financial statements of the Corporation are prepared in accordance with generally accepted accounting principles and in accordance with the requirements of the Insurance Corporation Act. The more significant accounting policies adopted are noted below.

INVESTMENTS AND INVESTMENT INCOME

Investments are carried at amortized cost. Premiums or discounts on bond purchases are deferred and amortized over the term to maturity of each bond.

Income on interest bearing securities is accrued daily. Gains and losses on sales of debt securities are deferred and amortized over the term to maturity of the security sold or 60 months, whichever is less.

DEFERRED PREMIUM ACQUISITION EXPENSES

Commissions and premium taxes are expensed over the terms of the insurance policies to which they relate.

DEPRECIATION AND AMORTIZATION

Depreciation is provided on a straight-line basis at rates which will depreciate the original cost over the useful life of each asset. Leasehold improvements are amortized over the term of each lease.

UNEARNED PREMIUMS

Unearned premiums is that portion of premiums that relates to the unexpired term of each vehicle policy or driver's point penalty premium.

UNPAID CLAIMS

Unpaid claims includes a provision for reported and unpaid claims and related expenses, based on the claim settlement experience of the Corporation, current trends and a detailed review of claim files. Also included is an estimate for unreported claims.

3. Investments

	Dec. 31, 1988		Dec. 31, 1987	
	Cost	Market	Cost	Market
	($ Thousands)			
Short-term deposit receipts, call loans and notes	$1,542,972	$1,542,972	$ 790,972	$ 790,972
Bonds	483,943	471,638	985,290	969,878
Equities	1,845	1,920	1,954	1,747
	$2,028,760	$2,016,530	$1,778,216	$1,762,597

4. Property and Equipment

	Dec. 31, 1988			Dec. 31, 1987
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
		($ Thousands)		
Land	$ 14,244	$ –	$14,244	$13,846
Buildings	81,706	31,386	50,320	49,923
Furniture and equipment	56,490	28,925	27,565	27,533
Leasehold improvements	843	633	210	328
	$153,283	$60,944	$92,339	$91,630

Depreciation has been charged at the following rates – buildings 5-10%; furniture and equipment 10-33.3%. Depreciation expense for the year ended December 31, 1988 amounted to $13,476,000 (1987 – $11,411,000).

5. Deferred Investment Gains and Losses

	Dec. 31, 1988	Dec. 31, 1987
	($ Thousands)	
Balance deferred – beginning of year	$111,157	$ 20,585
Net realized gains during year	15,447	117,401
Amount included in investment income	(31,058)	(26,829)
Balance deferred – end of year	$ 95,546	$111,157

6. Insurance (Motor Vehicle) Act Fund Surplus

A catastrophe reserve has been established, in accordance with industry practice, to provide financial and reinsurance stability. A rate stabilization reserve has been established to lessen the impact on premiums of significant variations in claims loss experience.

During the year, the Corporation appropriated, from the Insurance (Motor Vehicle) Act Fund surplus, $16,000,000 to the rate stabilization reserve.

7. Reinsurance

The Corporation underwrites policies of insurance and has obtained reinsurance on those policies which protect the Corporation against losses of up to $110,000,000 and limits the Corporation's liability to $7,500,000 in the event of a series of three or more claims arising out of a single occurrence. These reinsurance arrangements do not discharge the Corporation's obligation as primary insurer.

8. Related Party Transactions

The Corporation is the sole provider of compulsory automobile insurance in British Columbia and, therefore, insures vehicles owned or leased by the government of the province and its controlled entities. The Corporation also acts as agent for the Motor Vehicle Branch regarding the collection of motor vehicle licence fees and for the Ministry of Finance and Corporate Relations regarding the collection of social service taxes on privately sold used vehicles.

9. Pension Plans

The Corporation maintains two contributory defined benefit best years' average pension plans which cover more than 95% of all regular employees. The plans provide pensions based on length of service and best years' average earnings. The plans are, to all intents and purposes, identical and are funded through a single fund – I.C.B.C. Employees' Retirement Trust Fund.

An actuarial report prepared as at December 31, 1988, which was based on projections of employees' compensation levels to the time of retirement, the rate of inflation and the rate of return on the Fund's assets, indicates that the present value of the accrued pension benefits and the net assets available to provide for these benefits, at market value, are as follows:

	1988	1987
	($ Thousands)	
Accrued pension benefits	**$62,686**	$52,718
Retirement Fund assets at market value	**$80,004**	$68,044

The Corporation's pension contribution of $3,225,000 (1987 – $2,576,000) matches the employee contribution, which have both been established taking into account the amortization of experience and investment gains and losses over the average service life of the employees in the plans.

The unamortized surplus of the fund is for the benefit of eligible employees and is not recognized in determining the Corporation's operating results.

AUDITORS' REPORT

THE HONOURABLE LYALL F. HANSON
MINISTER OF LABOUR AND CONSUMER SERVICES
PROVINCE OF BRITISH COLUMBIA

We have examined the balance sheet of the Insurance Corporation of British Columbia as at December 31, 1988 and the statements of operations of the Insurance (Motor Vehicle) Act Fund and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1988 and the results of its operation of the Insurance (Motor Vehicle) Act Fund and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

CHARTERED ACCOUNTANTS

Vancouver, British Columbia
February 14, 1989

PRESIDENT'S COMMITTEE

PRESIDENT'S COMMITTEE

Thomas E. Holmes
President and
Chief Executive Officer

Robert H. Power
Executive Vice-President
Chief Financial Officer

Michael B. McCarthy
Vice-President
Insurance Operations

Donald J. McLean
Vice-President
Information Services

C.B. Penhall
Manager
Public Information

H. Graham Reid
Vice-President
General Counsel and
Secretary

l. to r. H.G. Reid, R.H. Power, M.B. McCarthy, D.J. McLean, C.B. Penhall.
Missing: T.E. Holmes